

PELLA COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2016

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**Pella Community School District
Board of Education and School District Officials
Year Ended June 30, 2016**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2015 Election)		
Joan Corbin	President	2017
Timothy Tripp	Vice President	2015
Gregg Gustafson	Board Member	2017
Gary Coppock	Board Member	2015
Michelle Van Maanen	Board Member	2017
(After September 2015 Election)		
Joan Corbin	President	2017
Gary Coppock	Vice President	2019
Gregg Gustafson	Board Member	2017
Timothy Tripp	Board Member	2019
Michelle Van Maanen	Board Member	2017
School District Officials		
Greg Ebeling	Superintendent	2016
Katelyn Bierl	District Secretary	2016
Mary Bogaard	Treasurer	2016
Ahlers & Cooney	Attorney	Indefinite



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Pella Community School District
Pella, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Pella Community School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 13 and 47 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015, (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 3, 2017, on our consideration of the Pella Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pella Community School District's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

January 3, 2017

Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for FY16 were \$22,995,584 compared to \$22,833,500 for FY15. This was an increase of \$162,084 or .71%.
- General Fund expenditures for FY16 were \$23,503,354 compared to \$22,701,558 for FY15. This was an increase of \$801,796 or 3.53%.
- The District's General Fund unassigned fund balance for FY16 was \$1,890,074 compared to \$2,270,291 for FY15. This was a decrease of \$380,217 or 16.75%.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 9.94% in FY15 to 8.21% in FY16. The District attempts to target a solvency ratio between 5% and 10%.
- The District ended FY16 with a special education deficit of \$645,536. This compares to \$609,642 for FY15, an increase of \$35,894.
- While the financial measures of the district remain at healthy levels, it will be incumbent upon management to remain diligent in managing future budgets and resources. While the on-going stability and predictability of future funding remains somewhat questionable, the district continues to be well positioned to withstand these challenges.
- A ten year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate - %
2014-2015	\$ 745,349,974	25,222,224	14.70000
2013-2014	741,898,237	23,496,071	14.70030
2012-2013	708,484,429	15,028,484	14.36515
2011-2012	621,722,509	52,619,101	14.21433
2010-2011	603,931,771	49,332,363	13.99439
2009-2010	603,548,029	34,192,965	13.83649
2008-2009	551,197,053	58,983,585	13.84418
2007-2008	478,010,818	72,596,699	13.88073
2006-2007	470,138,907	68,740,308	13.41259
2005-2006	463,535,140	66,071,157	13.52362

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

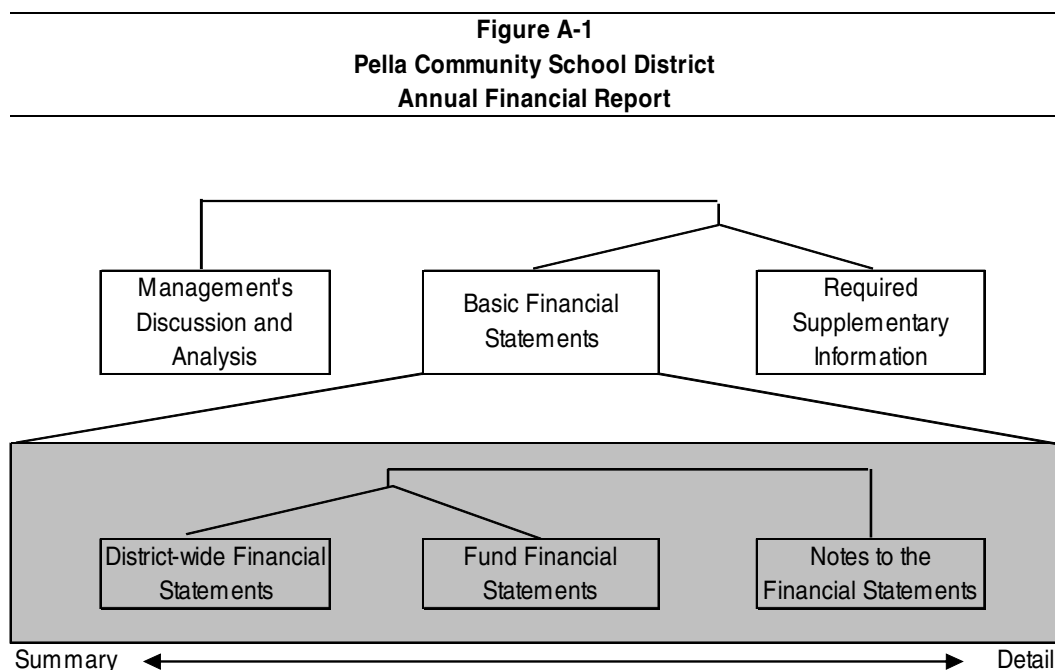


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2				
Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as the special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of Net Position * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of revenues, expenses and changes in fund net position * Statement of cash	* Statement of fiduciary net position * Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year; or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid
Type of deferred outflow / inflow information	Consumption / acquisition of net position that is applicable to a future reporting period	Consumption / acquisition of fund balance that is applicable to a future reporting period	Consumption / acquisition of net position that is applicable to a future reporting period	Consumption / acquisition of net position that is applicable to a future reporting period
Common names of district funds included	All funds with the exception of scholarship funds	General, PPEL, Management, Student Activity, Debt Service, Capital Projects	Nutrition Fund, Community Services	Special Projects

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net position* and how it has changed. Net position is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net position – Figure A-3 below provides a summary of the District's net position at June 30, 2016 compared to 2015.

Figure A-3							
Condensed Statement of Net Position							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-2016
Current assets	\$ 32,318,196	34,747,157	412,563	353,404	32,730,759	35,100,561	-6.8%
Noncurrent assets	61,578,028	49,243,743	111,807	129,543	61,689,835	49,373,286	24.9%
Total assets	93,896,224	83,990,900	524,370	482,947	94,420,594	84,473,847	11.8%
Deferred outflows of resources	3,868,106	2,077,857	77,538	42,914	3,945,644	2,120,771	-
Current liabilities	7,222,856	8,382,787	7,569	2,759	7,230,425	8,385,546	-13.8%
Noncurrent liabilities	56,141,856	43,461,206	271,691	220,915	56,413,547	43,682,121	29.1%
Total liabilities	63,364,712	51,843,993	279,260	223,674	63,643,972	52,067,667	22.2%
Deferred inflows of resources	14,487,973	14,177,895	50,272	64,331	14,538,245	14,242,226	2.1%
Net Position:							
Invested in capital assets, net of related debt	16,521,209	10,571,871	111,807	129,543	16,633,016	10,701,414	55.4%
Restricted	13,080,480	4,843,461	-	-	13,080,480	4,843,461	170.1%
Unrestricted	(9,690,044)	3,916,537	160,569	108,313	(9,529,475)	4,024,850	-336.8%
Total Net Position	\$ 19,911,645	19,331,869	272,376	237,856	20,184,021	19,569,725	3.1%

The District's combined net position increased by 3.1% from \$19,569,725 to \$20,184,021.

**Pella Community School District
Management's Discussion and Analysis
Year ended June 30, 2016**

Changes in net position – Figure A-4 shows the changes in net position for the year ended June 30, 2016 compared to the year ended June 30, 2015.

**Figure A-4
Changes in Net Position**

	Governmental activities		Business type activities		Total District		Total Change
	Year ended June 30,		Year ended June 30,		Year ended June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-2016
Revenues:							
Program revenues:							
Charges for services	\$ 2,057,757	1,828,105	770,194	776,825	2,827,951	2,604,930	8.56%
Operating grants and contributions	4,279,839	4,226,170	332,520	325,903	4,612,359	4,552,073	1.32%
General Revenues:							
Local taxes	11,801,859	11,868,119	-	-	11,801,859	11,868,119	-0.56%
Statewide sales, services and use tax	2,090,358	2,096,063	-	-	2,090,358	2,096,063	-0.27%
Unrestricted state grants	8,863,085	8,791,841	-	-	8,863,085	8,791,841	0.81%
Investment earnings	51,427	114,083	1,162	1,093	52,589	115,176	-54.34%
Other	151,713	549,793	-	-	151,713	549,793	-72.41%
Total revenues	29,296,038	29,474,174	1,103,876	1,103,821	30,399,914	30,577,995	-0.58%
Expenses:							
Program expenses:							
Instruction	19,375,161	17,410,037	-	-	19,375,161	17,410,037	11.29%
Support services - students & staff	1,729,063	1,888,809	-	-	1,729,063	1,888,809	-8.46%
Support services - administration	1,943,151	1,946,258	-	-	1,943,151	1,946,258	-0.16%
Operations and maintenance	2,394,817	2,216,547	-	-	2,394,817	2,216,547	8.04%
Transportation	1,277,702	1,153,690	-	-	1,277,702	1,153,690	10.75%
Non-instructional activities	10,894	(38,197)	1,069,356	1,131,604	1,080,250	1,093,407	-1.20%
Other expenditures	1,985,474	2,104,791	-	-	1,985,474	2,104,791	-5.67%
Total expenses	28,716,262	26,681,935	1,069,356	1,131,604	29,785,618	27,813,539	7.09%
Change in Net Position	\$ 579,776	2,792,239	34,520	(27,783)	614,296	2,764,456	-77.78%

Governmental Activities

Local taxes and unrestricted state grants account for 70.5 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 93 percent of the total expenses.

Revenues for governmental activities were \$29,296,038 and expenses were \$28,716,262, resulting in a net asset increase of \$579,776.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5
Total and Net Cost of Governmental Activities**

	Total Cost of Services		Change	Net Cost of Services		Change
	2016	2015	2015-2016	2016	2015	2015-2016
Instruction	\$ 19,375,161	17,410,037	11.3%	14,142,377	12,432,282	13.8%
Support services	7,344,733	7,205,304	1.9%	7,135,681	7,015,802	1.7%
Non-instructional programs	10,894	(38,197)	-128.5%	10,894	(38,197)	-128.5%
Other expenses	1,985,474	2,104,791	-5.7%	1,089,714	1,217,773	-10.5%
Totals	\$ 28,716,262	26,681,935	7.6%	22,378,666	20,627,660	8.5%

- The cost financed by users of the District's programs was \$2,057,757.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$4,279,839.
- The net cost of governmental activities was financed with \$11,801,859 in local taxes, \$8,863,085 in unrestricted state grants, \$2,090,358 in local option sales and services tax, \$51,427 in interest income and \$151,713 in other income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,103,876 and expenses were \$1,069,356. The District's business-type activities include the School Nutrition Fund. Revenues were comprised of \$770,194 in charges for service, \$332,520 for federal and state reimbursements and investment income of \$1,162. The net position for business-type activities increased by \$34,520.

Financial Analysis of the District's Funds

As previously noted, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$15,091,503. This compares to \$17,177,201 last year, a decrease of \$2,085,698.

Governmental Fund Highlights

- The General Fund balance decreased \$475,701 from \$2,989,022 to \$2,513,321.
- The Activity Fund balance increased \$5,409 from \$231,155 to \$236,564.
- The Management Fund balance decreased \$44,025 from \$674,920 to \$630,895.
- The Physical Plant & Equipment Levy (PPEL) Fund balance increased \$196,784 from \$43,086 to \$239,870.
- The Statewide Sales, Services and Use Tax Fund balance increased \$7,798,335 from \$3,546,958 to \$11,345,293. The Statewide Sales, Services and Use Tax generated \$2,090,358. The District receives money from Mahaska and Marion Counties. A revenue bond was issued for \$10,000,000. Interest income was \$18,182.
- The Debt Service Fund balance increased \$70,850 from \$54,710 to \$125,560.

Proprietary Fund Highlights

The District's Proprietary Funds include the School Nutrition Fund.

- The School Nutrition Fund net position increased \$34,520, from \$237,856 to \$272,376.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 47 and 48.

Legal Budgetary Highlights

The District's total actual receipts were \$38,311 more than the total budgeted receipts, a variance of .1%. Total expenditures were \$4,406,869 less than the total budgeted expenditures, a variance of 9.9%.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the District had invested \$61,689,835, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$2,263,680.

The original cost of the District's capital assets was \$89,232,682. Governmental funds account for \$88,162,922 with the remaining \$1,069,760 in the School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation

	Governmental Activities		Business Type activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-2016
Land	\$ 1,949,558	1,949,558	-	-	1,949,558	1,949,558	0.0%
Construction in progress	20,122,717	13,419,264	-	-	20,122,717	13,419,264	100.0%
Buildings	34,521,778	29,042,372	-	-	34,521,778	29,042,372	18.9%
Improvements other than buildings	2,162,381	2,073,182	-	-	2,162,381	2,073,182	4.3%
Furniture and equipment	2,821,594	2,759,367	111,807	129,543	2,933,401	2,888,910	1.5%
Totals	\$ 61,578,028	49,243,743	111,807	129,543	61,689,835	49,373,286	24.9%

Long-Term Debt

At June 30, 2016, the District had \$35,105,000 in general obligation bonds and \$10,000,000 in revenue bonds. This is an increase of \$8,480,000 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations, net of premiums and discounts

	June 30,		Total Change
	2016	2015	
General obligation bonds	\$ 35,056,821	36,572,007	-4.1%
Revenue bonds	10,000,000	-	N/A
Capital lease	-	239,012	-100.0%
Early retirement	2,220,941	375,755	491.1%
Compensated absences	35,017	35,739	-2.0%
Net Pension Liability	10,345,571	8,336,101	0.0%
Other postemployment benefits	864,178	833,541	3.7%
Totals	\$ 58,522,528	46,392,155	26.1%

The District had total outstanding bonded indebtedness at June 30, 2016 of \$45,105,000. This represents five separate g.o. bond issues, one of which is a refunding issue and one revenue bond issue. The final five bond issues are being used to finance infrastructure improvements approved by the voters in 2014.

The District also has a long-term debt obligation for its early retirement plan, which was \$2,220,941 at June 30, 2016, up from \$375,775 on June 30, 2015. A one time early retirement incentive was offered in 2015-16 which included health insurance benefits for certified employees until age 65. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund. Other postemployment benefits total \$864,178.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The October, 2016 enrollment increased by 17 students. This increase will provide additional funding for the 2017-2018 school year. Supplemental State Aid has not been set for 2017-2018, so any additional future funding is unknown at this time.
- The District's transportation fleet remains in good shape overall. This past year one bus and four support vehicles were purchased.
- The District offered a onetime early retirement incentive which included paid health insurance benefits until age 65 for certified employees. 19 certified employees took this early retirement as of June 30, 2016. Projected savings in the General Fund are over \$600,000 annually for the next several years.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. The current economic environment seems to have stabilized. The property tax base remains solid and housing starts continue at an increased rate from the previous several years.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.
- There were no significant changes in leadership during the past year.
- All in all, the 2015-2016 school-year was a challenging year financially. The 2016-2017 school year seems manageable at this point, however the District remains cautious about any potential adverse action by the Legislature or a trend of decreased enrollment that could negatively impact funding.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Bogaard, Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

Basic Financial Statements

Exhibit A
Pella Community School District
Statement of Net Position
Year ended June 30, 2016

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash, cash equivalents and pooled investments	\$ 18,128,442	400,298	18,528,740
Receivables:			
Property tax:			
Delinquent	70,983	-	70,983
Succeeding year	12,079,954	-	12,079,954
Accounts	12	-	12
Due from other governments	2,031,294	-	2,031,294
Inventories	7,511	12,265	19,776
Total current assets	32,318,196	412,563	32,730,759
Noncurrent assets:			
Capital assets:			
Capital assets, nondepreciable	22,072,275	-	22,072,275
Capital assets, depreciable, net	39,505,753	111,807	39,617,560
Total noncurrent assets	61,578,028	111,807	61,689,835
Total assets	93,896,224	524,370	94,420,594
Deferred Outflows of Resources			
Pension related deferred outflows of resources	3,868,106	77,538	3,945,644
Liabilities			
Current liabilities:			
Accounts payable	1,981,644	7,569	1,989,213
Medical claims payable	170,000	-	170,000
Salaries and benefits payable	1,737,372	-	1,737,372
Advances from Grantors	832,219	-	832,219
Accrued interest payable	120,949	-	120,949
General obligation bonds payable	1,515,000	-	1,515,000
Revenue bonds payable	200,000	-	200,000
Early retirement	630,655	-	630,655
Compensated absences	35,017	-	35,017
Total current liabilities	7,222,856	7,569	7,230,425
Noncurrent liabilities:			
General obligation bonds payable	33,541,821	-	33,541,821
Revenue bonds payable	9,800,000	-	9,800,000
Early retirement	1,590,286	-	1,590,286
Net pension liability	10,345,571	212,011	10,557,582
Other post employment benefits	864,178	59,680	923,858
Total noncurrent liabilities	56,141,856	271,691	56,413,547
Total liabilities	63,364,712	279,260	63,643,972

Exhibit A
Pella Community School District
Statement of Net Position
Year ended June 30, 2016

	Governmental Activities	Business Type Activities	Total
Deferred Inflows of Resources			
Unavailable property tax revenues	12,079,954	-	12,079,954
Pension related deferred inflows	2,408,019	50,272	2,458,291
Total deferred inflows of resources	14,487,973	50,272	14,538,245
Net Position			
Net investment in capital assets	16,521,209	111,807	16,633,016
Restricted for:			
Categorical funding	615,736	-	615,736
Debt service	4,611	-	4,611
School infrastructure	11,345,293	-	11,345,293
Management levy purposes	630,895	-	630,895
Student activities	236,564	-	236,564
Physical plant and equipment levy	239,870	-	239,870
Purpose restricted	7,511	-	7,511
Unrestricted	(9,690,044)	160,569	(9,529,475)
Total net position	\$ 19,911,645	272,376	20,184,021

See notes to financial statements.

Exhibit B

Pella Community School District
Statement of Activities
Year ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 11,891,857	796,217	2,268,027	(8,827,613)	- (8,827,613)
Special instruction	3,624,620	471,485	486,216	(2,666,919)	- (2,666,919)
Other instruction	3,858,684	770,243	440,596	(2,647,845)	- (2,647,845)
	19,375,161	2,037,945	3,194,839	(14,142,377)	- (14,142,377)
Support services:					
Student	504,132	-	-	(504,132)	- (504,132)
Instructional staff	1,224,931	-	-	(1,224,931)	- (1,224,931)
Administration	1,943,151	-	-	(1,943,151)	- (1,943,151)
Operating and maintenance of plant	2,394,817	19,812	-	(2,375,005)	- (2,375,005)
Transportation	1,277,702	-	189,240	(1,088,462)	- (1,088,462)
	7,344,733	19,812	189,240	(7,135,681)	- (7,135,681)
Non-instructional programs	10,894	-	-	(10,894)	- (10,894)
Other expenditures:					
Facilities acquisition					
Long-term debt interest	1,089,714	-	-	(1,089,714)	- (1,089,714)
AEA flowthrough	895,760	-	895,760	-	- -
	1,985,474	-	895,760	(1,089,714)	- (1,089,714)
Total governmental activities	28,716,262	2,057,757	4,279,839	(22,378,666)	- (22,378,666)
Business type activities:					
Non-instructional programs:					
Food service operations	1,069,356	770,194	332,520	-	33,358 33,358
Total business type activities	1,069,356	770,194	332,520	-	33,358 33,358
Total	\$ 29,785,618	2,827,951	4,612,359	(22,378,666)	33,358 (22,345,308)

Exhibit B

Pella Community School District
Statement of Activities
Year ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
	Expenses	Charges for Service				
Totals continued from previous pages	\$ 29,785,618	2,827,951	4,612,359	(22,378,666)	33,358	(22,345,308)
General Revenues:						
Property tax levied for:						
General purposes				8,575,253	-	8,575,253
Debt service				2,455,634	-	2,455,634
Capital outlay				770,972	-	770,972
Statewide sales, services and use tax				2,090,358	-	2,090,358
Unrestricted state grants				8,863,085	-	8,863,085
Unrestricted investment earnings				51,427	1,162	52,589
Other				151,713	-	151,713
Total general revenues				22,958,442	1,162	22,959,604
Change in net position				579,776	34,520	614,296
Net position beginning of year				19,331,869	237,856	19,569,725
Net position end of year				\$ 19,911,645	272,376	20,184,021

*This amount excludes the depreciation/amortization included in the direct expenses of the various programs.

See notes to financial statements.

Exhibit C

Pella Community School District
Balance Sheet
Governmental Funds
June 30, 2016

	General	Debt Service	Capital Projects	Non-major	Total
Assets					
Cash, cash equivalents and pooled investments	\$ 3,749,203	110,089	12,788,729	884,917	17,532,938
Receivables:					
Property tax:					
Delinquent	47,494	15,413	4,839	3,237	70,983
Succeeding year	7,831,466	2,427,688	820,797	1,000,003	12,079,954
Accounts	-	-	-	-	-
Due from other governments	1,700,161	58	331,075	12	2,031,306
Inventories	7,511	-	-	-	7,511
Total assets	\$ 13,328,324	2,553,248	13,945,440	1,888,169	31,715,181
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 421,790	-	1,539,480	20,374	1,981,644
Salaries and benefits payable	1,737,039	-	-	333	1,737,372
Advances from grantors	832,219	-	-	-	832,219
Total liabilities	2,991,048	-	1,539,480	20,707	4,551,235
Deferred inflows of resources					
Unavailable revenues:					
Succeeding year property tax	7,831,466	2,427,688	820,797	1,000,003	12,079,954
Total deferred inflows of resources	7,831,466	2,427,688	820,797	1,000,003	12,079,954
Fund balances:					
Nonspendable for:					
Inventory	7,511	-	-	-	7,511
Restricted for:					
Categorical funding	615,736	-	-	-	615,736
Debt service	-	125,560	-	-	125,560
Management levy purposes	-	-	-	630,895	630,895
Student activities	-	-	-	236,564	236,564
School infrastructure	-	-	11,345,293	-	11,345,293
Physical plant and equipment	-	-	239,870	-	239,870
Committed for future equipment purchases					
Unassigned	1,890,074	-	-	-	1,890,074
Total fund balances	2,513,321	125,560	11,585,163	867,459	15,091,503
Total liabilities, deferred inflows of resources and fund balances	\$ 13,335,835	2,553,248	13,945,440	1,888,169	31,722,692

See notes to financial statements.

Exhibit D

Pella Community School District
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances of governmental funds (Exhibit C) **\$ 15,091,503**

***Amounts reported for governmental activities in the
Statement of Net Position are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 61,578,028

The Internal Service Fund is used by management to charge the costs of partial self funding of the District's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position. 425,504

Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds. (120,949)

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 3,868,106	
Deferred inflows of resources	<u>(2,408,019)</u>	1,460,087

Long-term liabilities, including bonds and notes payable, compensated absences payable, other postemployment benefits payable and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds. Those liabilities at year-end consist of:

General obligation bonds payable	(35,105,000)	
Revenue bonds payable	(10,000,000)	
Bond discounts, net	343,597	
Bond premiums, net	(295,418)	
Early retirement	(2,220,941)	
Compensated absences	(35,017)	
Net pension liability	(10,345,571)	
Other post employment benefits	<u>(864,178)</u>	<u>(58,522,528)</u>

Net position of governmental activities (Exhibit A) **\$ 19,911,645**

See notes to financial statements.

Exhibit E

Pella Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2016

	General	Debt Service	Capital Projects	Non-major	Total
Revenues:					
Local sources:					
Local tax	\$ 8,074,980	2,455,634	770,972	500,273	11,801,859
Tuition	1,143,510	-	-	-	1,143,510
Other	406,577	272	43,632	841,888	1,292,369
State sources	12,696,498	70,443	2,112,474	14,836	14,894,251
Federal sources	674,019	-	-	-	674,019
Total revenues	22,995,584	2,526,349	2,927,078	1,356,997	29,806,008
Expenditures:					
Current:					
Instruction:					
Regular	9,810,487	-	339,411	282,958	10,432,856
Special	3,259,929	-	-	-	3,259,929
Other	2,834,907	-	-	833,533	3,668,440
	15,905,323	-	339,411	1,116,491	17,361,225
Support services:					
Student	522,007	-	-	1,280	523,287
Instructional staff	1,281,104	-	-	768	1,281,872
Administration	1,817,408	-	172,647	8,320	1,998,375
Operation and maintenance of plant	2,140,227	-	39,677	219,766	2,399,670
Transportation	941,525	-	257,794	48,988	1,248,307
	6,702,271	-	470,118	279,122	7,451,511
Other expenditures:					
Facilities acquisition	-	-	13,412,792	-	13,412,792
Long-term debt:					
Principal	-	1,759,012	-	-	1,759,012
Interest and fiscal charges	-	940,806	102,669	-	1,043,475
AEA flowthrough	895,760	-	-	-	895,760
	895,760	2,699,818	13,515,461	-	17,111,039
Total expenditures	23,503,354	2,699,818	14,324,990	1,395,613	41,923,775
Excess (deficiency) of revenues over (under) expenditures	(507,770)	(173,469)	(11,397,912)	(38,616)	(12,117,767)

Exhibit E**Pella Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2016**

	General	Debt Service	Capital Projects	Non-major	Total
Other financing sources(uses):					
Proceeds from sale of assets	32,069	-	-	-	32,069
Revenue bonds issued	-	-	10,000,000	-	10,000,000
Operating transfers in	-	244,319	-	-	244,319
Operating transfers out	-	-	(244,319)	-	(244,319)
Total other financing sources (uses)	32,069	244,319	9,755,681	-	10,032,069
Change in fund balances	(475,701)	70,850	(1,642,231)	(38,616)	(2,085,698)
Fund balances beginning of year, as restated	2,989,022	54,710	13,227,394	906,075	17,177,201
Fund balances end of year	\$ 2,513,321	125,560	11,585,163	867,459	15,091,503

See notes to financial statements.

Exhibit F

Pella Community School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2016

Net change in fund balances - total governmental funds (Exhibit E) **\$ (2,085,698)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Position and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 15,110,790	
Gain (loss) on disposal of assets	(542,039)	
Less current year depreciation	(2,234,466)	12,334,285

Fixed assets acquired by capital lease are shown as an expenditure and other financing source in the governmental funds. Equipment financed by the lease was capitalized and is being depreciated. The capital outlay for the assets purchased by the lease must be added to the Statement of Activities, the other financing source must be removed from the Statement of Activities and principal payments are applied to the lease liability. Current year items are as follows:

Payments of capital lease principal	239,012
-------------------------------------	---------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the Statement of Activities. Current year items are as follows:

Proceeds from general obligation bonds received	(10,000,000)	
Discounts on general obligation bonds	-	
Premiums on general obligation bonds	-	
Repayments of bond and note principal	1,520,000	
Amortization of discounts	(22,585)	
Amortization of premiums	17,771	(8,484,814)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (41,426)

The current year District employers share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 1,337,414

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(1,845,186)	
Compensated absences	722	
Pension expense	(1,018,520)	
Other postemployment benefits	(82,868)	(2,945,852)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in Net Position of the Internal Service Fund is reported with governmental activities. 226,855

Change in net position of governmental activities (Exhibit B) **\$ 579,776**

See notes to financial statements.

Exhibit G

Pella Community School District
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business Type Activities Enterprise, School Nutrition	Governmental Activities Internal Service Fund
Assets		
Current assets:		
Cash and investments	\$ 400,298	595,504
Inventories	12,265	-
Total current assets	412,563	595,504
Noncurrent assets:		
Property and equipment:		
Machinery and equipment	1,069,760	-
Accumulated depreciation	(957,953)	-
Total noncurrent assets	111,807	-
Total assets	524,370	595,504
Deferred Outflows of Resources		
Pension related deferred outflows	77,538	-
Liabilities		
Current liabilities:		
Accounts payable	7,569	170,000
Salaries and benefits payable	-	-
Total current liabilities	7,569	170,000
Noncurrent liabilities:		
Net pension liability	212,011	-
Other postemployment benefits	59,680	-
Total noncurrent liabilities	271,691	-
Total liabilities	279,260	170,000
Deferred Inflows of Resources		
Pension related deferred inflows	50,272	-
Net Position		
Net investment in capital assets	111,807	-
Unrestricted	160,569	425,504
Total Net Position	272,376	425,504

See accompanying independent auditor's report.

Exhibit H

Pella Community School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2016

	Business Type Activities Enterprise, School Nutrition	Governmental Activities Internal Service Fund
Operating revenues:		
Local sources:		
Other local sources:		
Sale of lunches and breakfasts	\$ 764,255	-
Charges for service	-	1,771,817
Other service revenue	5,939	-
Total operating revenues	770,194	1,771,817
Operating expenses:		
Instructional programs:		
Support services:		
Administrative services:		
Services	34,820	1,546,178
	34,820	1,546,178
Food services operations:		
Salaries	337,257	-
Benefits	134,222	-
Services	22,342	-
Supplies	511,501	-
Depreciation	29,214	-
	1,034,536	-
Total operating expenses	1,069,356	1,546,178
Operating income (loss)	(299,162)	225,639
Non-operating revenues:		
Interest income	1,162	1,216
State lunch and breakfast program claims	7,538	-
National School Lunch Program	27,573	-
School Breakfast Program	225,471	-
Food distribution	71,938	-
Total non-operating revenues	333,682	1,216
Change in Net Position	34,520	226,855
Net Position beginning of year	237,856	198,649
Net Position end of year	\$ 272,376	425,504

See accompanying independent auditor's report.

Exhibit I
**Pella Community School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016**

	Business Type Activities Enterprise, School Nutrition	Governmental Activities Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	764,255	-
Cash received from service tuition, fees and other sources	5,939	1,771,817
Cash payments to employees for services	(469,947)	(1,376,178)
Cash payments to suppliers for goods or services	(485,026)	-
Net cash used by operating activities	(184,779)	395,639
Cash flows from non-capital financing activities:		
Operating grants and contributions	-	-
State grants received	7,538	-
Federal grants received	253,044	-
Net cash provided by operating activities	260,582	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,478)	-
Net cash used by capital and related financing activities	(11,478)	-
Cash flows from investing activities:		
Interest on investments	1,162	1,216
Sale of investments	-	-
Net cash provided by investing activities	1,162	1,216
Net increase (decrease) in cash and cash equivalents	65,487	396,855
Cash and cash equivalents at beginning of year	334,811	198,649
Cash and cash equivalents at end of year	400,298	595,504
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(299,162)	225,639
Adjustments to reconcile operating loss to net cash used by operating activities:		
Commodities	71,938	-
Depreciation	29,214	-
Decrease in inventories	6,328	-
Increase in accounts payable	5,371	-
Increase in medical claims payable	-	170,000
(Decrease) in salaries and benefits payable	(561)	-
Increase in net pension liability	43,327	-
(Increase) in deferred outflows of resources	(34,624)	-
(Decrease) in deferred inflows of resources	(14,059)	-
(Decrease) in other postemployment benefits payable	7,449	-
Net cash provided (used) by operating activities	(184,779)	395,639
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash and investments	400,298	595,504
Cash and cash equivalents at year end	400,298	595,504

Non-cash investing, capital and financing activities:

During the year ended June 30, 2016, the District received federal commodities valued at \$71,938.

See accompanying independent auditor's report.

Exhibit J**Pella Community School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016**

	<u>Expendable Trust</u>	
	<u>Special Projects</u>	<u>Agency</u>
Assets		
Cash, cash equivalents and pooled investments	\$ 100,240	4,950
Total assets	<u>100,240</u>	<u>4,950</u>
Liabilities		
Accounts payable	100	1,765
Other current liabilities	-	3,185
Total liabilities	<u>100</u>	<u>4,950</u>
Net position		
Restricted for scholarships	<u>100,140</u>	<u>-</u>
Total Net Position	<u>\$ 100,140</u>	<u>-</u>

See notes to financial statements.

Exhibit K**Pella Community School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2016**

	<u>Expendable Trust</u>	<u>Special Projects</u>
Additions:		
Local sources:		
Gifts and contributions	\$	67,668
Interest income		-
Total additions		<u>67,668</u>
Deductions:		
Instruction:		
Supplies		<u>28,591</u>
Total deductions		<u>28,591</u>
Change in net position		39,077
Net position beginning of year		<u>61,063</u>
Net position end of year	\$	<u><u>100,140</u></u>

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows/outflows, fund balance/net position, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the District's major governmental funds:

General Fund: The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Debt Service Fund: The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows.

The District reports the following non-major proprietary fund:

The Enterprise School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net position and change in net position. The District's fiduciary funds include the following:

The Expendable Trust Fund is used to account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted Net Position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The District maintains a cash and investment pool used by all funds. The cash and investment pool has the same characteristics as demand deposits. Each fund type's portion of this pool is displayed in the financial statements as cash and cash equivalents in that fund. The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The monies are either maintained in a central bank account or used to purchase legal investments.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2015.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Advances from Grantors – Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the District after the measurement date but before the end of the District's reporting period.

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to / deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, expenditures did not exceed the amounts budgeted.

(2) **Cash, Cash Equivalents and Pooled Investments**

The District's deposits in banks at June 30, 2016, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 244,319
		<u>\$ 244,319</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,949,558	-	-	1,949,558
Construction in progress	13,419,264	12,346,999	5,643,546	20,122,717
Total capital assets not being depreciated	15,368,822	12,346,999	5,643,546	22,072,275
Capital assets being depreciated:				
Buildings	42,614,362	7,098,500	1,428,182	48,284,680
Improvements other than buildings	3,892,065	316,470	-	4,208,535
Furniture and equipment	13,092,526	992,367	487,461	13,597,432
Total capital assets being depreciated	59,598,953	8,407,337	1,915,643	66,090,647
Less accumulated depreciation for:				
Buildings	13,571,990	1,078,247	887,335	13,762,902
Improvements other than buildings	1,818,883	227,271	-	2,046,154
Furniture and equipment	10,333,159	928,948	486,269	10,775,838
Total accumulated depreciation	25,724,032	2,234,466	1,373,604	26,584,894
Total capital assets being depreciated, net	33,874,921	6,172,871	542,039	39,505,753
Governmental activities capital assets, net	\$ 49,243,743	18,519,870	6,185,585	61,578,028
Business type activities:				
Furniture and equipment	\$ 1,058,282	11,478	-	1,069,760
Less accumulated depreciation	928,739	29,214	-	957,953
Business type activities capital assets, net	\$ 129,543	(17,736)	-	111,807

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 1,293,702
Special education	178,442
Other	156,136

Support services:

Student support	22,305
Instructional staff	89,221
Administration	133,831
Operation and maintenance of plant	111,526
Transportation	245,357

Non-instructional programs

Total depreciation expense - governmental activities	\$ 2,234,466
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Business type activities:

Food services	\$ 29,214
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(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governemntal activities:					
General obligation bonds	\$ 36,625,000	-	1,520,000	35,105,000	1,515,000
General obligation bond discounts, net	(366,182)	-	(22,585)	(343,597)	(22,585)
General obligation bond premiums, net	313,189	-	17,771	295,418	17,771
Revenue bonds	-	10,000,000	-	10,000,000	200,000
Subtotal	36,572,007	10,000,000	1,515,186	45,056,821	1,710,186
Capital leases	239,012	-	239,012	-	-
Early retirement	375,755	2,680,938	835,752	2,220,941	630,655
Compensated absences	35,739	35,017	35,739	35,017	35,017
Net pension liability	8,167,417	2,178,154	-	10,345,571	-
Other postemployment benefits	781,310	82,868	-	864,178	-
Total governmental activities	\$ 46,171,240	14,976,977	2,625,689	58,522,528	2,375,858
Business type activities:					
Net pension liability	\$ 168,684	43,327	-	212,011	-
Other postemployment benefits	52,231	7,449	-	59,680	-
Total business type activities	\$ 220,915	50,776	-	271,691	-

General Obligation Bonds

Details of the District's June 30, 2016 general obligation bonded indebtedness are as follows:

Crossover Refunding Bond Issue of May 1, 2012				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	1.10%	\$ 920,000	164,700	1,084,700
2018	1.35%	925,000	154,580	1,079,580
2019	1.55%	945,000	142,092	1,087,092
2020	1.75%	955,000	127,445	1,082,445
2021	1.90%	965,000	110,732	1,075,732
2022	2.10%	985,000	92,398	1,077,398
2023	2.20%	1,000,000	71,712	1,071,712
2024	2.35%	1,025,000	49,713	1,074,713
2025	2.50%	1,025,000	25,625	1,050,625
Subtotal		8,745,000	938,997	9,683,997

Pella Community School District
Notes to Financial Statements
June 30, 2016

Bond Issue of July 15, 2013				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	2.00%	330,000	187,960	517,960
2018	2.00%	335,000	181,360	516,360
2019	2.00%	340,000	174,660	514,660
2020	2.00%	350,000	167,860	517,860
2021	2.00%	355,000	160,860	515,860
2022	2.00%	365,000	153,760	518,760
2023	2.00%	370,000	146,460	516,460
2024	2.10%	375,000	139,060	514,060
2025	2.50%	385,000	131,185	516,185
2026	2.75%	445,000	121,560	566,560
2027	3.00%	460,000	109,322	569,322
2028	3.00%	470,000	95,523	565,523
2029	3.00%	485,000	81,422	566,422
2030	3.00%	500,000	66,873	566,873
2031	3.15%	515,000	51,872	566,872
2032	3.25%	530,000	35,650	565,650
2033	3.35%	550,000	18,425	568,425
Subtotal		7,160,000	2,023,812	9,183,812

Bond Issue of June 2, 2014				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	2.00%	100,000	303,113	403,113
2018	2.00%	100,000	301,112	401,112
2019	2.00%	100,000	299,113	399,113
2020	2.00%	100,000	297,112	397,112
2021	2.00%	100,000	295,113	395,113
2022	2.00%	100,000	293,112	393,112
2023	2.50%	100,000	291,113	391,113
2024	2.50%	100,000	288,612	388,612
2025	3.00%	100,000	286,113	386,113
2026	3.00%	250,000	283,112	533,112
2027	3.00%	250,000	275,613	525,613
2028	3.00%	250,000	268,112	518,112
2029	3.00%	300,000	260,613	560,613
2030	3.13%	300,000	251,612	551,612
2031	3.25%	1,525,000	242,238	1,767,238
2032	3.50%	1,585,000	192,675	1,777,675
2033	3.50%	1,640,000	137,200	1,777,200
2034	3.50%	2,280,000	79,800	2,359,800
Subtotal		9,280,000	4,645,488	13,925,488

Pella Community School District
Notes to Financial Statements
June 30, 2016

Bond Issue of June 1, 2015				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	1.00%	65,000	246,411	311,411
2018	1.00%	75,000	245,761	320,761
2019	1.20%	75,000	245,011	320,011
2020	1.20%	80,000	244,111	324,111
2021	2.00%	200,000	243,151	443,151
2022	1.60%	200,000	239,151	439,151
2023	1.70%	210,000	235,951	445,951
2024	2.00%	215,000	232,381	447,381
2025	2.00%	245,000	228,081	473,081
2026	2.50%	1,105,000	223,181	1,328,181
2027	2.50%	1,140,000	195,556	1,335,556
2028	2.50%	1,180,000	167,056	1,347,056
2029	2.50%	1,160,000	137,556	1,297,556
2030	2.63%	1,195,000	108,556	1,303,556
2031	3.25%	15,000	77,188	92,188
2032	3.25%	5,000	76,700	81,700
2033	3.25%	-	76,538	76,538
2034	3.25%	-	76,538	76,538
2035	3.25%	2,355,000	76,538	2,431,538
Subtotal		9,520,000	3,375,416	12,895,416

Bond Issue of June 1, 2015				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	2.00%	100,000	8,000	108,000
2018	2.00%	100,000	6,000	106,000
2019	2.00%	100,000	4,000	104,000
2020	2.00%	100,000	2,000	102,000
Subtotal		400,000	20,000	420,000

Total				
Year ending June 30,		Principal	Interest	Total
2017		1,515,000	910,184	2,425,184
2018		1,535,000	888,813	2,423,813
2019		1,560,000	864,876	2,424,876
2020		1,585,000	838,528	2,423,528
2021		1,620,000	809,856	2,429,856
2022		1,650,000	778,421	2,428,421
2023		1,680,000	745,236	2,425,236
2024		1,715,000	709,766	2,424,766
2025		1,755,000	671,004	2,426,004
2026		1,800,000	627,853	2,427,853
2027		1,850,000	580,491	2,430,491
2028		1,900,000	530,691	2,430,691
2029		1,945,000	479,591	2,424,591
2030		1,995,000	427,041	2,422,041
2031		2,055,000	371,298	2,426,298
2032		2,120,000	305,025	2,425,025
2033		2,190,000	232,163	2,422,163
2034		2,280,000	156,338	2,436,338
2035		2,355,000	76,538	2,431,538
Total		\$ 35,105,000	11,003,713	46,108,713

Crossover Refunding Bonds May 1, 2013

On May 1, 2012, the District issued \$9,660,000 in general obligation bonds to advance refund \$9,145,000 of outstanding general obligation bonds dated June 1, 2005 in a crossover type refunding. The proceeds of the refunding issue have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and interest due on the Series 2005 bonds ("refunding bonds") after June 1, 2015 and interest on the Series 2012 bonds ("refunding bonds") through June 1, 2015. The new refunding bonds have been added to the appropriate financial statements and schedules. The district remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2015, no such bonds are outstanding. The district remained liable for the principal and interest on the non-callable portion of the bonds through fiscal year end 2015. The escrow fund paid interest on the new advance refunding bonds until that time. No advance payments on the June 1, 2005 general obligation bonds were paid in the current year and final payment to pay off these bonds took place June 1, 2015. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$955,557 and resulted in an economic gain of \$816,170.

Revenue Bonds

Details of the District's June 30, 2016 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Bond Issue of April 25, 2016				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2017	2.46%	\$ 200,000	291,100	491,100
2018	2.46%	660,000	241,080	901,080
2019	2.46%	675,000	224,844	899,844
2020	2.46%	695,000	208,239	903,239
2021	2.46%	710,000	191,142	901,142
2022	2.46%	725,000	173,676	898,676
2023	2.46%	745,000	155,841	900,841
2024	2.46%	765,000	137,514	902,514
2025	2.46%	780,000	118,695	898,695
2026	2.46%	800,000	99,507	899,507
2027	2.46%	820,000	79,827	899,827
2028	2.46%	840,000	59,655	899,655
2029	2.46%	860,000	38,991	898,991
2030	2.46%	725,000	8,918	733,918
Total		\$ 10,000,000	2,029,029	12,029,029

The District has pledged future statewide sales, services and use tax revenues to repay the \$10,000,000 of bonds issued in April 2016. The bonds were issued for the purpose of financing an addition to the existing high school building. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 50% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$12,029,029. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$2,090,358.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District did not comply with all of the revenue bond provisions during the year ended June 30, 2016. The required reserve account was not established by the District and no transfers were made to the sinking account.

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2016, the District has obligations to 40 participants with a total liability of \$2,220,941. Actual early retirement expenditures for the year ended June 30, 2016 totaled \$1,845,186.

(6) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 377 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement and must have been employed full time by the District for a minimum of 10 years within the 12 consecutive years prior to the retirement year.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	133,015
Interest on net OPEB obligation		20,839
Adjustment to ARC		(53,342)
Annual OPEB cost		100,512
Contributions made		(10,195)
Increase in net OPEB obligation		90,317
Net OPEB obligation beginning of year		833,541
Net OPEB obligation end of year	\$	923,858

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the District contributed \$10,195 to the medical plan. Plan members eligible for benefits contributed 100% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2016 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 133,198	38.40%	\$ 210,507
June 30, 2011	161,651	13.33%	325,178
June 30, 2012	135,325	12.83%	443,141
June 30, 2013	162,728	8.16%	592,587
June 30, 2014	161,651	6.36%	743,955
June 30, 2015	98,139	8.71%	833,541
June 30, 2016	100,512	10.14%	923,858

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$732,365, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$732,365. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,282,114, and the ratio of the UAAL to covered payroll was 5.5%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014, actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2013 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2013.

Projected claim costs of the medical plan are \$553 per month for retirees who have attained age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(7) Pension Plan

Pension Description – IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first.. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In the fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the District contributed 8.93% for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2016 were \$1,364,017.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$10,557,582 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's proportion was 0.212364%, which was an increase of 0.006386% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,039,767. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 159,512	-
Changes of assumptions	290,677	-
Net difference between projected and actual earnings on pension plan investments	1,579,624	2,458,291
Changes in proportion and differences between District contributions and proportionate share of contributions	551,814	-
District contributions subsequent to the measurement date	1,364,017	-
Total	<u>\$ 3,945,644</u>	<u>2,458,291</u>

\$1,364,017 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June, 30	
2017	\$ (144,896)
2018	(144,896)
2019	(144,896)
2020	535,532
2021	22,492
	<u>\$ 123,336</u>

There are no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on the pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 18,484,427	10,557,582	3,866,756

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2016, the District reported payables to IPERS of \$137,756 for legally required employer contributions and \$91,786 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(8) Risk Management

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$895,760 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Approved Bond Issue

On April 2, 2013 the voters approved the issuance of up to \$29,100,000 in general obligation bonds. In July 2013 \$9,000,000 in general obligation bonds were issued, in June 2014 \$9,995,000 of general obligation bonds were issued, and in June 2015 \$10,105,000 of general obligation bonds were issued.

The bond issue includes:

- Redesign entrances at the high school, middle school and Jefferson so all visitors enter through the main office for security measures. Other safety and security issues will be addressed as well (security cameras, door access/card readers, interior door locks, etc.)
- Build, furnish and equip a new elementary building to replace the current Lincoln Elementary School (location will be decided by School Board after reviewing survey results)
- Build, furnish and equip a career academy building (this will be a partnership between DMACC, Pella Community Schools, Pella Christian High School – students will be able to receive dual credit in ten career readiness areas of need.)
- Significant improvements will be made to the high school – common area, drop off/pick up, arts addition (including art department, choir room, scene shop, etc.), athletic renovation/addition (including wrestling room addition, fitness/weight room expansion, locker room addition/renovation), administration addition, bring faculty up to code for Americans with Disabilities Act
- Improvements to the middle school include: removal of three classrooms and create learning centers, renovate restrooms, replace partition walls with full height walls to resolve acoustic issue, add additional classroom space
- Improvements at Madison will be focused on the playground area (green space and drainage)
- At this time, the District is very aware of the heating/cooling and air ventilation issues. The Board, through other funds, plan to address these issues in the near future.

(11) Commitments and Contingencies

The District has signed contracts for upgrades as follows:

Project	Projected Cost	Costs Incurred
Lincoln Elementary	\$ 14,782,000	14,051,187
Jefferson Intermediate Improvements	1,615,247	1,121,278
Middle School Improvements	5,766,241	5,766,241
High School Improvements	18,000,000	4,950,252
Career Academy	5,643,546	5,643,546
	<u>\$ 45,807,034</u>	<u>31,532,504</u>

(12) Restatement

The following discloses the restatement of government fund balances as of the beginning of the year:

	Management Fund
Net position June 30, 2015, as previously reported	\$ 469,823
Increase due to removal of early retirement payable	205,097
Net position July 1, 2015, as restated:	<u>\$ 674,920</u>

Required Supplementary Information

Pella Community School District
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Change in Balances
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 14,237,738	771,356	15,009,094	15,015,301	15,015,301	(6,207)
State sources	14,894,251	7,538	14,901,789	14,936,272	14,936,272	(34,483)
Federal sources	674,019	324,982	999,001	920,000	920,000	79,001
Total revenues	29,806,008	1,103,876	30,909,884	30,871,573	30,871,573	38,311
Expenditures/Expenses:						
Instruction	17,361,225	-	17,361,225	16,879,449	18,000,000	638,775
Support services	7,451,511	34,820	7,486,331	7,698,096	8,000,000	513,669
Non-instructional programs	-	1,034,536	1,034,536	1,165,941	1,400,000	365,464
Other expenditures	17,111,039	-	17,111,039	18,865,485	20,000,000	2,888,961
Total expenditures/expenses	41,923,775	1,069,356	42,993,131	44,608,971	47,400,000	4,406,869
Excess (deficiency) of revenues over (under) expenditures/expenses	(12,117,767)	34,520	(12,083,247)	(13,737,398)	(16,528,427)	4,445,180
Other financing sources, net	10,032,069	-	10,032,069	15,004,000	15,004,000	(4,971,931)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(2,085,698)	34,520	(2,051,178)	1,266,602	(1,524,427)	(526,751)
Balances beginning of year, as restated	17,177,201	237,856	17,415,057	26,984,318	26,984,318	(9,569,261)
Balances end of year	\$ 15,091,503	272,376	15,363,879	28,250,920	25,459,891	(10,096,012)

See accompanying independent auditor's report.

Pella Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's Budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$2,791,029,.

During the year ended June 30, 2016, expenditures did not exceed the District's budget.

Pella Community School District
Schedule of the District's Proportionate Share of the Net Pension Liability
Iowa Public Employee's Retirement System
For the Last Two Years* (In Thousands)
Required Supplementary Information

	2016	2015
District's proportion of the net pension liability	0.212364%	0.205978%
District's proportionate share of the net pension liability	\$ 10,558	8,336
District's covered-employee payroll	\$ 14,642	13,753
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding year.

See accompanying independent auditor's report.

**Pella Community School District
Schedule of District Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years (In Thousands)
Required Supplementary Information**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 1,365	1,308	1,228	1,115	1,006	855	820	764	696	599
Contributions in relation to the statutorily required contribution	(1,365)	(1,308)	(1,228)	(1,115)	(1,006)	(855)	(820)	(764)	(696)	(599)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 15,282	14,642	13,753	12,858	12,460	12,295	12,324	12,027	11,501	10,413
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

See accompanying independent auditor's report.

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Pella Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
Year ended June 30, 2016

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	-	835,783	835,783	0.0%	11,192,612	7.5%
2011	July 1, 2010	-	935,693	935,693	0.0%	11,304,748	8.3%
2012	July 1, 2010	-	938,941	938,941	0.0%	11,553,658	8.1%
2013	July 1, 2012	-	1,134,207	1,134,207	0.0%	11,868,905	9.6%
2014	July 1, 2012	-	1,102,880	1,102,880	0.0%	12,877,091	8.6%
2015	July 1, 2014	-	755,450	755,450	0.0%	12,956,751	5.8%
2016	July 1, 2014	-	732,365	732,365	0.0%	13,282,114	5.5%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

Schedule 1

**Pella Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016**

	Special Revenue Funds		
	Management	Student Activity	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 630,703	254,214	884,917
Receivables:			
Property tax:			
Delinquent	3,237	-	3,237
Succeeding year	1,000,003	-	1,000,003
Due from other Governments	12	-	12
Total assets	\$ 1,633,955	254,214	1,888,169
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 3,057	17,317	20,374
Salaries and benefits payable	-	333	333
Total liabilities	3,057	17,650	20,707
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	1,000,003	-	1,000,003
Total deferred inflows of resources	1,000,003	-	1,000,003
Fund balances:			
Restricted for:			
Management levy purposes	630,895	-	630,895
Student activities	-	236,564	236,564
Total fund balances	630,895	236,564	867,459
Total liabilities, deferred inflows of resources and fund balances	\$ 1,633,955	254,214	1,888,169

See accompanying independent auditor's report.

Schedule 2

Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2016

	Special Revenue Funds		
	Management	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 500,273	-	500,273
Other	2,946	838,942	841,888
State sources	14,836	-	14,836
Total revenues	518,055	838,942	1,356,997
Expenditures:			
Current:			
Instruction:			
Regular	282,958	-	282,958
Other	-	833,533	833,533
Support services:			
Student services	1,280	-	1,280
Instructional staff services	768	-	768
Administration	8,320	-	8,320
Operation and maintenance of plant	219,766	-	219,766
Student transportation	48,988	-	48,988
Total expenditures	562,080	833,533	1,395,613
Excess (deficiency) of revenues over (under) expenditures	(44,025)	5,409	(38,616)
Other financing sources:			
Transfers in			
Change in fund balances			
Fund balances beginning of year, as restated	674,920	231,155	906,075
Fund balances end of year	\$ 630,895	236,564	867,459

See accompanying independent auditor's report.

Schedule 3

Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2016

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Booster/PTO Concessions	13,309	-	4,945	8,364
HS Drama	8,012	10,319	16,459	1,872
HS Speech	-	9,655	9,555	100
HS Debate	100	-	91	9
HS Vocal	46,094	110,388	85,899	70,583
Vocal Music Trip Account	12,210	48,946	57,963	3,193
HS Instr. Music	4,329	12,290	13,853	2,766
Marching Dutch Invitational	-	38,078	34,764	3,314
HS Instr. Music Fundraiser-Band Trip	4,446	10,812	13,789	1,469
Band Uniform	-	16,373	16,373	-
Orchestra	418	3,752	2,173	1,997
Orchestra Trip Account	-	25,634	25,341	293
Athletics	-	11,715	11,715	-
HS Boys Bask.	-	12,484	12,484	-
HS Football	-	33,409	33,409	-
HS Boys Soccer	-	3,685	3,685	-
HS Baseball	-	7,445	7,445	-
HS Track	-	1,567	1,567	-
HS Boys Cross Country	-	971	971	-
HS Boys Tennis	-	647	647	-
HS Boys Golf	-	2,263	2,263	-
HS Wrestling	-	3,689	3,689	-
HS Girls Basketball	-	13,171	13,171	-
HS Volleyball	-	6,345	6,345	-
HS Girls Soccer	-	8,254	8,254	-
HS Softball	-	13,488	13,488	-
HS Girls Track	-	3,789	3,789	-
HS Girls Cross Country	-	864	864	-
HS Girls Tennis	-	201	201	-
HS Girls Golf	-	1,741	1,741	-
HS Miscellaneous Activity	25,809	154,393	146,290	33,912
Boys Basketball Club	5,914	4,310	5,935	4,289
HS Football Club	2,472	25	33	2,464
Boys Soccer Club	3,518	3,835	5,321	2,032
Baseball Club	4,333	13,530	7,367	10,496
Boys Track Club	764	1,061	1,203	622
Cross Country Club	3,394	2,831	5,990	235
HS Boys Tennis Club	1,216	607	542	1,281
HS Girls Tennis Club	1,030	570	400	1,200
Boys Golf Club	353	-	30	323
Wrestling Club	2,233	4,167	4,263	2,137
Girls Basketball Club	880	6,175	6,316	739
Volleyball Club	1,754	1,743	1,639	1,858
Girls Soccer Club	1,081	3,404	4,485	-
Softball Club	1,123	3,315	3,447	991
Girls Track Club	1,913	577	287	2,203
Shooting Club	-	1,000	885	115
Bowling Club	-	509	-	509
Girls Golf Club	661	139	-	800
Drill Team-Forte	-	19,711	19,711	-
HS Cheerleaders	3,459	6,170	4,528	5,101

Schedule 3

**Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2016**

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
FFA	13,787	43,389	50,414	6,762
FCS	15,790	1,525	3,882	13,433
Humanities	645	-	-	645
Technology Student Association	7,328	1,500	3,899	4,929
National Honor Society	-	1,109	1,109	-
HS PE Heart Club	1,225	456	-	1,681
HS Vending	-	2,222	2,095	127
HS Testing	-	6,895	5,668	1,227
French Club	1,612	-	1,589	23
Pella Connection Club	1,339	-	-	1,339
HS Student Council	1,096	2,286	2,026	1,356
Class of 2016	1,079	2,537	3,616	-
Class of 2017	3,010	1,417	1,777	2,650
Class of 2018	1,380	-	-	1,380
Class of 2019	1,415	105	-	1,520
Class of 2020	-	4,482	3,428	1,054
Publications	2,301	30,250	32,551	-
Student Help Center	-	2,591	2,591	-
Interest	813	791	1,604	-
After Prom Club	2,040	12,866	13,368	1,538
Football Parents	-	30,802	26,535	4,267
MS Vocal Music	9,732	7,310	8,928	8,114
MS Instrumental Music	6,074	1,763	1,040	6,797
MS Boys Basketball	-	3,290	3,290	-
MS Football	-	1,800	1,800	-
MS Boys Track	-	1,144	1,144	-
MS Cross Country	-	200	200	-
MS Wrestling	-	793	793	-
MS Girls Basketball	-	1,252	1,252	-
MS Volleyball	-	2,088	2,088	-
MS Girls Track	-	1,098	1,098	-
MS Cheerleaders	-	50	50	-
MS Library/Book Fair	214	1,234	-	1,448
MS History Day Club	21	-	-	21
MS Gifted and Talented	483	-	-	483
MS Publications	2,574	8,509	4,986	6,097
MS Student Council	629	-	60	569
MS Activity Tickets	-	1,500	1,500	-
MS Activity	1,228	2,374	2,151	1,451
MS Home Ec	375	-	13	362
MS Language Arts	112	-	-	112
MS Social Studies	304	-	-	304
MS Concessions	459	7,078	7,016	521
Lincoln Elementary	-	3,604	3,604	-
Madison Elementary	3,265	6,123	8,301	1,087
Jefferson Elementary	-	2,462	2,462	-
Totals	\$ 231,155	838,942	833,533	236,564

See accompanying independent auditor's report.

Schedule 4

Pella Community School District
Combining Balance Sheet
Capital Projects Fund Accounts
June 30, 2016

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 12,552,966	235,763	12,788,729
Receivables:			
Property tax:			
Delinquent	-	4,839	4,839
Succeeding year	-	820,797	820,797
Due from other governments	331,057	18	331,075
Total assets	\$ 12,884,023	1,061,417	13,945,440
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts Payable	\$ 1,538,730	750	1,539,480
Total liabilities	1,538,730	750	1,539,480
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	820,797	820,797
Total deferred inflows of resources	-	820,797	820,797
Fund balances:			
Restricted for:			
School infrastructure	11,345,293	-	11,345,293
Physical plant and equipment	-	239,870	239,870
Total fund balances	11,345,293	239,870	11,585,163
Total liabilities, deferred inflows of resources and fund balances	\$ 12,884,023	1,061,417	13,945,440

See accompanying independent auditor's report.

Schedule 5

Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Projects Fund Accounts
Year ended June 30, 2016

	Capital Projects			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects Funds	Total
Revenues:				
Local sources:				
Local tax	\$ -	770,972	-	770,972
Other	18,182	434	25,016	43,632
State sources	2,090,358	22,116	-	2,112,474
Total revenues	2,108,540	793,522	25,016	2,927,078
Expenditures:				
Current:				
Instruction	293,485	45,926	-	339,411
Administration	-	172,647	-	172,647
Operation and maintenance of plant	-	39,677	-	39,677
Transportation	-	257,794	-	257,794
Facilities acquisition	3,669,732	80,694	9,662,366	13,412,792
Interest and fiscal charges	102,669	-	-	102,669
Total expenditures	4,065,886	596,738	9,662,366	14,324,990
Excess (deficiency) of revenues over (under) expenditures	(1,957,346)	196,784	(9,637,350)	(11,397,912)
Other financing sources (uses):				
Revenue bond issued	10,000,000	-	-	10,000,000
Operating transfers out	(244,319)	-	-	(244,319)
	9,755,681	-	-	9,755,681
Change in fund balances	7,798,335	196,784	(9,637,350)	(1,642,231)
Fund balances beginning of year	3,546,958	43,086	9,637,350	13,227,394
Fund balances end of year	\$ 11,345,293	239,870	-	11,585,163

See accompanying independent auditor's report.

Pella Community School District
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund
Year ended June 30, 2016

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash, cash equivalents and pooled investments	\$ -	4,950	-	4,950
Total assets	\$ -	4,950	-	4,950
Liabilities				
Liabilities:				
Accounts payable	\$ -	1,765	-	1,765
Other Current Liabilities	-	3,185	-	3,185
Total liabilities	\$ -	4,950	-	4,950

See accompanying independent auditor's report.

Schedule 7

Pella Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local sources:										
Local tax	\$ 11,801,859	11,950,722	11,128,270	12,176,769	11,418,696	10,462,055	10,316,935	9,924,433	8,759,431	8,331,502
Tuition	1,143,510	867,199	863,556	894,493	880,470	662,720	696,529	614,100	498,004	623,795
Other	1,292,369	1,332,582	1,314,524	1,109,041	1,193,265	1,234,151	1,065,637	948,695	1,041,828	1,358,267
Intermediate sources	-	-	-	-	30,346	29,017	54,462	41,897	18,785	37,523
State sources	14,894,251	14,600,546	13,769,315	11,542,976	11,393,402	10,597,204	8,834,772	10,489,005	10,318,253	9,168,676
Federal sources	674,019	708,064	717,096	559,196	677,010	1,482,236	1,014,007	717,166	477,670	424,983
Total	<u>\$ 29,806,008</u>	<u>29,459,113</u>	<u>27,792,761</u>	<u>26,282,475</u>	<u>25,593,189</u>	<u>24,467,383</u>	<u>21,982,342</u>	<u>22,735,296</u>	<u>21,113,971</u>	<u>19,944,746</u>
Expenditures:										
Instruction:										
Regular	\$ 10,432,856	10,014,187	9,651,743	9,841,345	8,595,515	8,252,456	8,120,373	8,052,519	7,476,168	6,830,022
Special	3,259,929	3,169,338	3,013,007	2,850,721	2,643,627	2,480,176	2,361,109	2,332,868	2,344,069	2,028,208
Other	3,668,440	3,532,806	3,376,859	3,054,646	2,994,676	3,169,367	2,708,732	2,273,264	2,001,692	1,961,808
Support services:										
Student	523,287	506,778	495,077	506,928	394,164	365,025	385,386	412,003	386,123	302,002
Instructional staff	1,281,872	1,422,171	1,315,534	1,137,848	1,241,138	958,151	676,907	661,268	753,039	762,889
Administration	1,998,375	1,942,312	1,799,779	1,821,709	1,949,057	1,626,341	1,954,006	1,737,873	1,634,630	1,462,779
Operation and maintenance of plant services	2,399,670	2,414,815	2,260,583	2,156,112	1,954,464	1,904,435	1,759,611	1,809,861	1,847,350	1,706,062
Transportation	1,248,307	1,202,589	1,167,440	1,084,364	845,468	901,297	992,893	1,031,167	1,113,573	1,130,895
Non-instructional programs	-	-	-	-	-	-	-	-	-	-
Other expenditures:										
Facilities acquisition	13,412,792	15,935,766	4,514,930	164,600	304,445	390,406	2,972,609	1,989,527	2,849,534	9,094,847
Long-term debt:										
Principal	1,759,012	11,023,822	2,838,744	2,054,319	1,685,000	1,610,000	1,460,000	4,265,000	1,170,000	1,115,000
Interest and other charges	1,043,475	1,227,004	958,370	791,556	764,835	696,153	757,001	772,857	833,430	891,941
AEA flowthrough	895,760	887,018	868,667	832,321	818,473	887,814	856,878	781,173	732,846	660,488
Total	<u>\$ 41,923,775</u>	<u>53,278,606</u>	<u>32,260,733</u>	<u>26,296,469</u>	<u>24,190,862</u>	<u>23,241,621</u>	<u>25,005,505</u>	<u>26,119,380</u>	<u>23,142,454</u>	<u>27,946,941</u>

See accompanying independent auditor's report.

Pella Community School District



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Education of Pella Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pella Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pella Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pella Community School District's Responses to Findings

Pella Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. Pella Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

January 3, 2017

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

- 1 Certified Budget - Expenditures for the year ended June 30, 2016, did not exceed the certified budget amounts.
- 2 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 3 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 4 Business Transactions - No business transactions between the District and District officials or employees were noted.
- 5 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- 6 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 7 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- 8 Supplementary Weighting – Variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

Recommendation - The supplemental weighting data should be corrected.

Response - The Iowa Department of Education and the Iowa Department of Management will be notified of the error.

Conclusion - Response accepted.
- 9 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 11 Categorical Funding – No instances were noted of categorical funding used to supplant rather than supplement other funds.

Pella Community School District
Schedule of Findings
Year Ended June 30, 2016

- 12 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2016, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	3,546,958
Revenues/transfers in:			
Sales tax revenues	\$	2,090,358	
Other local revenues		18,182	
Revenue bond issued		10,000,000	12,108,540
			<u>15,655,498</u>
Expenditures/transfers out:			
Instruction		293,485	
Construction services		3,669,732	
Interest and fiscal charges		102,669	
Transfers to other funds:			
Debt service funds		244,319	4,310,205
			<u>4,310,205</u>
Ending balance		\$	<u>11,345,293</u>

For the year ended June 30, 2016, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

- 13 Revenue Bonds - The District has not established the reserve account required by the revenue bond resolution. In addition, the required monthly transfers from the revenue account to the sinking account were not made by the District.

Recommendation – The District should establish the reserve account in the amount required and make the monthly transfers to the sinking account as required by the bond resolution.

Response – We will establish a reserve account and begin making transfers to a sinking account.

Conclusion – Response accepted.